1999 Country Reports on Economic Policy and Trade Practices
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INDONESIA

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	
Income, Production and Employment: 1/				
Nominal GDP	216	94	67	
Real GDP Growth (pct)	7.6	-13.2	-4.0	
GDP by Sector:				
Agriculture	34.5	18.4	15.0	
Manufacturing	54.9	23.4	16.7	
Services	67.5	35.7	26.4	
Government	11.5	4.1	3.16	
Per Capita GDP (US$)	1,116	465	550	2/
Labor Force (millions)	87.0	92.6	96.6	
Unemployment Rate (pct)	4.6	10	10	
Money and Prices (annual percentage growth):				
Money Supply (M2) (pct)	23.2	62.3	10.2	3/
Consumer Price Inflation (pct)	8.0	75.0	0.02	4/
Exchange Rate (Rupiah/US$ annual average)	2,909	10,014	7948	
Balance of Payments and Trade: 1/				
Total Exports FOB	56.2	50.4	21.7	
Exports to U.S.	9.2	9.3	5.3	
Total Imports CIF	41.7	27.3	11.5	
Imports from U.S.	4.5	2.3	1.1	
Trade Balance	14.5	23.1	10.2	
Balance with U.S.	4.7	7.0	4.2	
External Public Debt	56.4	71.4	70.7	
Debt Service Payments/GDP (pct)	3.8	7.6	6.7	5/
Current Account Balance/GDP(pct) 6/	-0.9	3.9	2.7	
Fiscal Deficit/GDP (pct) 6/	1.1	2.2	5.0	
Gold and Foreign Exchange				
Reserves (end of period)	17.4	23.5	26.7	
Aid from U.S. (millions of US$)	71	135	139	6/
Aid from All Other Sources	5.2	5.2	7.8	7/

1/ 1999 GDP and export/import figures are for January-June. (Average Rp/US$ exchange rates were 8,775 for 1Q CY-1999 and 7,921 for 2Q CY-1999.)

2/ 1999 per capita GDP figure is rough estimate. Increase in 1999 over 1998 due to strengthening of Rp/$ exchange rate.
3/ 1999 figure is for January-August.
4/ 1999 figure is for January-September.
5/ 1999 figure as of March 31 (includes debts of state-owned enterprises)
6/ Fiscal year
7/ 1999 figure is amount pledged

Sources: Government of Indonesia, U.S. Department of Commerce (for trade with U.S.), IMF (exchange rates), U.S. Agency for International Development (for bilateral assistance).

1. General Policy Framework

Much of the cautious optimism toward Indonesia in the second half of 1999 stems from the political successes Indonesia achieved since former President Soeharto resigned in May 1998. In that time, Indonesia has lifted press restrictions, held a peaceful, free and fair multi-party general election in June 1999 and installed a democratically elected president in October 1999. The new President, K.H. Aburrahman Wahid, although a dark horse candidate, is broadly acceptable to all political groupings. The subsequent selection as Vice President of Megawati Soekarnoputri, leader of the party which came in first in the June polls, heralded the selection of a multi-party "national unity" cabinet.

Indonesia still faces daunting economic problems. Foreign capital fled in the early months of the financial crisis and is returning only slowly. The business sector is struggling to service existing foreign debts at the weaker exchange rate. The banking sector remains moribund; banks are making few new loans and debtors are servicing even fewer old ones. In mid-1999, the Indonesian Bank Restructuring Agency (IBRA), whose credibility with both the domestic and international business community is crucial to Indonesia's economic recovery, was caught up in a campaign finance and corruption scandal involving Bank Bali. The scandal involved the diversion of funds from a $120 million interbank loan repayment to Bank Bali from a now-closed government bank whose assets and liabilities had been transferred to IBRA.

The IMF and its stabilization program have been the overriding economic fact of life in Indonesia since November 1997. The IMF suspended payments to Indonesia in September 1999 until the Bank Bali affair was resolved. The election of a new president and the belated release of an independent audit of the Bank Bali affair in November led the IMF to begin negotiations on a new three-year program. The target is to sign a new letter of intent by mid-January.

Despite the continued financial turmoil, there remain deep underlying strengths in the Indonesian economy. Indonesia is the world's fourth largest country and the anchor of Southeast Asia politically and economically. Although shaken and still cautious, the emerging middle class is slowly resuming consumer spending and represents a huge and growing potential market. The country has a strategic location, a large labor force earning relatively low wages and abundant natural resources. Once largely dependent on petroleum, natural gas, and commodities such as coffee, tea, rubber, timber, and palm oil and shrimp, Indonesia again found those sectors to be a solid economic foundation when the crisis hit. Regions such as Sumatra and Sulawesi that have strong, agricultural commodity-based economies survived the crisis with only minor disruptions. In 1998, Indonesian agricultural exports rose some 17 percent in U.S. dollar terms, as farmers rushed to take advantage of the windfall brought about by the weak rupiah, and fell only slightly in the first half of 1999. Industrial exports in 1998 fell just over 1 percent. Indonesian exports to the U.S. have remained steady throughout the crisis at around $9.3 billion a year. Total imports fell by 35 percent in 1998 over 1997. Imports from the U.S. fell by almost half from 1997 to 1998 and by another 15 percent in the first half of 1999.

The Indonesian Government has historically maintained a "balanced" budget: expenditures were covered by the sum of domestic revenues and foreign aid and borrowing, without resort to domestic borrowing. Often the government ended the year with a slight surplus. This remains the government's long term goal. The new government says it expects the gap between domestic revenues and expenditures to remain for several years although some of the budgetary pressure has been relieved by the rise in oil prices in the latter half of 1999. The budgetary gap in the 1999/2000 fiscal year, which will need to be covered by foreign assistance, is expected to be in the range of 4 to 5 percent.

In parallel with its fiscal policy, the Indonesian Government earned a reputation for prudent monetary policy in recent years that helped keep consumer price inflation in the single digits. However, the massive depreciation of the rupiah that began in mid-1997 and huge liquidity injections into the banking system contributed to significant inflation. Indonesian monetary authorities dampened inflationary pressure and reduced pressure on the exchange rate by controlling the growth of the money supply.

The government has made steady progress in trade and investment deregulation. Periodic "deregulation packages" of liberalization measures lowered investment barriers and instituted a program of comprehensive tariff reduction by staged cuts. The goal is to reduce all tariffs in the 1 to 20 percent range to 5 percent or less by 2000, and to reduce all tariffs in the 20 percent and higher range to 10 percent or less by 2003. Although the deregulation packages made comparatively less progress in reducing non-tariff barriers, the government's collaboration with the International Monetary Fund (IMF) since November 1997 prompted much bolder measures, ending most import monopolies and gradually opening Indonesia's closed distribution system. The program also includes a commitment to eliminate all non-tariff barriers over the program period.

2. *Exchange Rate Policies*

In August 1997, the government eliminated the rupiah intervention band in favor of a floating exchange rate policy.

3. Structural Policies

In October 1997, deteriorating conditions led Indonesia to request support from the International Monetary Fund (IMF). The government signed its first Letter of Intent with the IMF on October 31, 1997. The letter called for a three-year economic stabilization and recovery program, supported by loans from the IMF ($10 billion), the World Bank, the Asian

Development Bank, and bilateral donors. Apart from financial support, the international community also offered detailed technical assistance to the government. Foreign governments and private organizations also contributed food and other humanitarian assistance.

Indonesia's agreement with the IMF has been revised repeatedly in response to deteriorating macroeconomic conditions and political changes. The result is a complex, multi-faceted program to address macroeconomic imbalances, financial weaknesses, real sector inefficiencies, and the loss of private sector confidence. In November 1999, the IMF resumed negotiations with the government with the aim of drafting a new letter of intent to take account of changing circumstances and the new government's priorities.

4. Debt Management Policies

Indonesia's foreign debt totaled about $145 billion as of September 1999, with about $72 billion owed by the public sector and $73 billion by the private sector. In 1998, Indonesia signed a Memorandum of Understanding with its official creditors to reschedule public sector debt principal contracted before July 1, 1997 and falling due between August 1998 and the end of March 2000.

In 1999, the government introduced a monitoring system to collect information on all foreign exchange transactions, including foreign borrowing. Borrowing in connection with state-owned enterprises has been regulated since 1991. The government continued to assert that it would not impose capital controls.

5. Significant Barriers to U.S. Exports

Indonesia had previously maintained a complex and non-transparent import licensing system that was a significant impediment to trade. Since the advent of the economic crisis in 1997, the government has removed numerous licensing requirements and committed in its IMF agreement to phase out all quantitative import restrictions (other than those justified for health, safety, and environmental reasons) and other non-tariff barriers that protect domestic production.

Services Barriers: Despite some loosening of restrictions, services trade entry barriers remain in many sectors. Commercial presence is required to offer insurance in Indonesia and foreign firms must form joint ventures with local companies. As of July 1998, foreign participation in telecommunications services is no longer limited. PT Telkom is the state-owned monopoly provider of fixed line services. Telkom has exclusive rights to provide nationwide fixed line telecommunications until 2011 and to provide domestic long distance services until 2006. The government has allowed five foreign telecommunications companies to partner with local firms and operate joint ventures to build, maintain, and operate local fixed-line networks in cooperation with PT Telkom.

Foreign accounting firms must operate through technical assistance arrangements with local firms, but Indonesian citizenship is no longer a requirement for licensing as an accountant. Foreign agents and auditors may act only as consultants and may not sign audit reports. Foreign law firms are not allowed to establish practices in Indonesia. Attorneys are admitted to the bar only if they have graduated from an Indonesian legal faculty or an institution recognized as the equivalent. Foreign companies incorporated in Indonesia may issue stocks and bonds through the capital market.

Investment Barriers: The government is committed to reducing burdensome bureaucratic procedures and substantive requirements for foreign investors. In 1994, the government dropped initial foreign equity requirements and sharply reduced divestiture requirements. Indonesian law provides for both 100 percent direct foreign investment projects and joint ventures with a minimum Indonesian equity of five percent. In mid-1998, the government opened several previously restricted sectors to foreign investment, reducing the number of sectors restricted for foreign direct investment to 25, 16 of which are completely closed to investment while the remaining nine allow minority foreign equity participation. The restricted sectors include taxi and bus transportation, local shipping, cinema operation, private broadcasting and newspapers, medical services, and some trade services. The government also removed foreign ownership limitations on banks and on firms publicly traded on Indonesian stock markets. The government hinted throughout much of 1999 that it would reduce the negative list even further but, as of November 1999, it had not yet done so.

The Capital Investment Coordinating Board (BKPM) must approve most foreign investment proposals. Investments in the oil and gas, mining, forestry, and financial services sectors are covered by specific laws and regulations and handled by the relevant technical ministries.

Government Procurement Practices: In 1994, the government enacted a procurement law to regulate government procurement practices and strengthen the procurement oversight process. Most large government contracts are financed by bilateral or multilateral donors who specify procurement procedures. For large projects funded by the government, international competitive bidding practices are to be followed. The government seeks concessional financing which includes a 3.5 percent interest rate, a 25-year repayment period and seven-year grace period. Some projects do proceed on less concessional terms. Foreign firms bidding on certain government-sponsored construction or procurement projects may be asked to purchase and export the equivalent in selected Indonesian products. Government departments and institutes and state and regional government corporations are expected to utilize domestic goods and services to the maximum extent feasible, but this is not mandatory for foreign aid-financed goods and services procurement. State-owned enterprises that have offered shares to the public through the stock exchange are exempted from government procurement regulations.

6. Export Subsidies Policies

Indonesia joined the GATT Subsidies Code and eliminated export loan-interest subsidies as of April 1, 1990. As part of its drive to increase non-oil and gas exports, the government permits restitution of VAT paid by a producing exporter on purchases of materials for use in manufacturing export products. Exemption from or drawbacks of import duties are available for goods incorporated into exports. Free trade zones and industrial estates are combined in several bonded areas. In the past two years, the government has gradually increased the share of production that firms located in bonded zones are able to sell domestically, up to 100 percent in 1998.

7. Protection of U.S. Intellectual Property

Indonesia is a member of the World Intellectual Property Organization (WIPO) and in 1997 became full party to the Paris Convention for the Protection of Intellectual Property, the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, and the Trademark Law Treaty. Indonesia was the first country in the world to ratify the WIPO Copyright Treaty, but has not ratified the companion WIPO Performances and Phonograms Treaty. In April 1999, the U.S. Trade Representative renewed Indonesia's place on the Special 301 Priority Watch List, where it has been since 1996.

Indonesia has serious and continuing deficiencies in its intellectual property regime: rampant piracy (software, books, and video), trademark piracy and an inconsistent enforcement and ineffective legal system. New patent, trademark, and copyright laws were enacted in May 1997. In order to bring Indonesia’s laws into compliance with the TRIPS Agreement by the mandated deadline of January 1, 2000, Indonesia has drafted (but not enacted as of November 1999) new laws on protection of trade secrets, industrial design and integrated circuits. It has also proposed amendments to its laws on trademark and copyright. Those laws are designed to address the remaining inadequacies of Indonesia's IPR legal regime, but inadequate enforcement and a non-transparent judicial system unfamiliar with intellectual property law still pose daunting problems for U.S. companies. The government often responds to U.S. companies with specific complaints about pirated goods and trademark abuse, but the court system can be frustrating and unpredictable, and effective punishment of pirates of intellectual property has been rare.

Indonesia’s 1997 Patent Law addressed several areas of concern to U.S. companies, including compulsory licensing provisions, a relatively short term of protection, and a provision that allowed importation of 50 pharmaceutical products by non-patent holders.

8. Worker Rights

a. The Right of Association: Private sector workers, including those in export processing zones, are by law free to form worker organizations without prior authorization. In May 1998 and in September 1999 the government issued new regulations on registration of workers' organizations. The effect of the new regulation was to eliminate numerical and other requirements that were previously a barrier to union registration. The government ratified International Labor Organization (ILO) Convention 87 on Freedom of Association in June 1998. Since the regulation went into effect, at least 20 new or previously unrecognized unions have formed and notified the Department of Manpower of their intention to register workplace and branch units. The government may dissolve a union if it believes the union is acting against the national ideology, Pancasila, although it has never actually done so, and there are no laws or regulations specifying procedures for union dissolution.

The government is considering other legislative and regulatory changes in regard to trade unions, industrial dispute resolution, and labor affairs generally. To allow time for new laws and regulations, the parliament amended a 1997 Basic Law on Manpower Affairs by postponing its implementation until the year 2000.

Civil servants are no longer required to belong to KORPRI, a nonunion association whose central development council is chaired by the Minister of Home Affairs. State enterprise employees, defined to include those working in enterprises in which the state has a 5-percent holding or greater, usually were KORPRI members in the past, but a small number of state enterprises have units of the Federation of All-Indonesian Trade Unions (SPSI). New unions are now seeking to organize employees in some state-owned enterprises. Teachers must belong to the teachers' association (PGRI). All organized workers except civil servants have the legal right to strike. While state enterprise employees and teachers rarely exercise this right, private sector strikes are frequent.

b. The Right to Organize and Bargain Collectively: Registered unions can legally engage in collective bargaining and can collect dues from members through a checkoff system. In companies without unions, the government discourages workers from utilizing outside assistance, preferring that workers seek its assistance. By regulation, negotiations must be concluded within 30 days or be submitted to the Department of Manpower for mediation and conciliation or arbitration. Agreements are for two years and can be extended for one year. According to NGOs involved in labor issues, the provisions of these agreements rarely go beyond the legal minimum standards established by the government, and the agreements are often merely presented to worker representatives for signing rather than being negotiated.

Although government regulations prohibit employers from discriminating or harassing employees because of union membership, there are credible reports from union officials of employer retribution against union organizers, including firing, which is not effectively prevented or remedied in practice. Administrative tribunals adjudicate charges of antiunion discrimination. However, because many union members believe the tribunals generally side with employers, many workers reject or avoid the procedure and present their grievances directly to the national human rights commission, parliament and other agencies. Administrative decisions in favor of dismissed workers tend to be monetary awards; workers are rarely reinstated. The provisions of the law make it difficult to fire workers, but the law is often ignored in practice.

The armed forces, which include the police, continue to involve themselves in labor issues, despite the Minister of Manpower's revocation in 1994 of a 1986 regulation allowing the military to intervene in strikes and other labor actions. A 1990 decree that gives the Agency for Coordination of National Stability (BAKORSTANAS) authority to intervene in strikes in the interest of political and social stability remains in effect.

c. Prohibition of Forced or Compulsory Labor: The law forbids forced labor, and the government generally enforces it. However, according to credible sources, there are several thousand children working on fishing platforms off the East Coast of North Sumatra in conditions of bonded labor. Most are recruited from farming communities, and once they arrive at the work site, are not permitted to leave for at least three months and until a replacement worker can be found. Children receive average monthly wages that are well below the minimum wage. They live in isolation on the sea, working 12 to 20 hours per day in often dangerous conditions, sleeping in the workspace with no access to sanitary facilities. There are reports of physical, verbal and sexual abuse of the children. In 1999 the government ratified ILO Conventions 105 (Forced Labor) and began removing children from the fishing platforms.

d. Minimum Age for Employment of Children: Child labor exists in both industrial and rural areas, and in both the formal and informal sectors. According to a 1995 report of the Indonesian Central Bureau of Statistics, four percent of Indonesian children between the ages of 10 and 14 work full-time, and another four percent work in addition to going to school. Many observers believe that number to be significantly understated, because documents verifying age are easily falsified, and because children under 10 were not included. Indonesia was one of the first countries to be selected for participation in the ILO's International Program on the Elimination of Child Labor (IPEC). Although the ILO has sponsored training of labor inspectors on child labor matters under the IPEC program, enforcement remains lax. In April 1999 the government ratified ILO Convention, which establishes a minimum working age of 15.

e. Acceptable Conditions of Work: Indonesia does not have a national minimum wage. Rather, area wage councils working under the supervision of the national wage council establish minimum wages for regions and basic needs figures for each province -- a monetary amount considered sufficient to enable a single worker to meet the basic needs of nutrition, clothing, and shelter. In Jakarta, the minimum wage is about $33 (Rp. 231,000) per month (at an exchange rate of Rp 7000 to the dollar). That is 70 percent of the government-determined basic needs figure. There are no reliable statistics on the number of employers paying at least the minimum wage. Independent observers' estimates range between 30 and 60 percent.

Labor law and ministerial regulations provide workers with a variety of other benefits, such as social security, and workers in more modern facilities often receive health benefits, free meals, and transportation. The law establishes 7-hour workdays and 40-hour workweeks, with one 30-minute rest period for each 4 hours of work. The law also requires one day of rest weekly. The daily overtime rate is 1-1/2 times the normal hourly rate for the first hour, and twice the hourly rate for additional overtime. Observance of laws regulating benefits and labor standards varies from sector to sector and by region. Employer violations of legal requirements are fairly common and often result in strikes and employee protests. The Ministry of Manpower continues publicly to urge employers to comply with the law. However, in general, government enforcement and supervision of labor standards is weak.

Both law and regulations provide for minimum standards of industrial health and safety. In the largely western-operated oil sector, safety and health programs function reasonably well. However, in the country's 100,000 larger registered companies in the non-oil sector, the quality of occupational health and safety programs varies greatly. The enforcement of health and safety standards is severely hampered by the limited number of qualified Department of Manpower inspectors as well as by the low level of employee appreciation for sound health and safety practices. Allegations of corruption on the part of inspectors are common. Workers are obligated to report hazardous working conditions. Employers are forbidden by law from retaliating against those who do, but the law is not effectively enforced.

f. Rights in Sectors with U.S. Investment: Working conditions in firms with U.S. ownership are widely recognized as better than the norm for Indonesia. Application of legislation and practice governing worker rights is largely dependent upon whether a particular business or investment is characterized as private or public. U.S. investment in Indonesia is concentrated in the petroleum and related industries, primary and fabricated metals (mining), and pharmaceutical sectors.

Foreign participation in the petroleum sector is largely in the form of production sharing contracts between the foreign companies and the state oil and gas company, Pertamina, which retains control over all activities. All employees of foreign companies under this arrangement are considered state employees and thus all legislation and practice regarding state employees generally applies to them. Employees of foreign companies operating in the petroleum sector are organized in KORPRI. Employees of these state enterprises enjoy most of the protection of Indonesia labor laws but, with some exceptions, they do not have the right to strike, join labor organizations, or negotiate collective agreements. Some companies operating under other contractual arrangements, such as contracts of work and, in the case of the mining sector, coal contracts of work, do have unions and collective bargaining agreements.

Regulations pertaining to child labor and child welfare are applicable to employers in all sectors. Employment of children and concerns regarding child welfare are not considered major problem areas in the petroleum and fabricated metals sectors. Legislation regarding minimum wages, hours of work, overtime, fringe benefits, health and safety applies to all sectors. The best industrial and safety record in Indonesia is found in the oil and gas sector.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		4,610
Total Manufacturing		197
Food & Kindred Products	16	
Chemicals & Allied Products	131	
Primary & Fabricated Metals	8	
Industrial Machinery and Equipment	-17	
Electric & Electronic Equipment	35	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		186
Finance/Insurance/Real Estate		171
Services		53
Other Industries		(1)
TOTAL ALL INDUSTRIES		6,932

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.